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S E C R E T SECTION 1 OF 5 USNATO 6291

E.O. 11652: GDS

TAGS: MILI, PFOR, NATO, UR, XF, XG, XI

SUBJECT: DRAFT REPORT TO NATO MINISTERS ON MEDITERRANEAN SITUATION
(MED REPORT)

REF: USNATO 5894

MEDITERRANEAN DRAFTING GROUP COMPLETED ITS WORK ON NOVEMBER 8 AND
INTERNATIONAL STAFF HAS CIRCULATED MED REPORT AS DOCUMENT C-M(74)79.
SEE TEXT BELOW. MISSION COMMENTS IN SEPTTEL (NOTAL)

BEGIN TEXT

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REPORT ON THE SITUATION IN THE MEDITERRANEAN JUNE-NOVEMBER 1974

NOTE BY THE SECRETARY GENERAL

THE AD HOC GROUP ON THE MEDITERRANEAN, WHICH MET FROM 5TH TO 8TH NOVEMBER, UNDER THE CHAIRMANSHIP OF MR.R. MEUWIS, DISCUSSED A REPORT ON THE ABOVE SUBJECT PREPARED BY THE INTERNATIONAL STAFF IN COLLABORATION WITH THE INTERNATIONAL MILITARY STAFF. FOLLOWING THE DISCUSSION, THE AD HOC GROUP REACHED AGREEMENT ON THE ATTACHED REPORT.

2. THIS REPORT IS SUBMITTED TO THE COUNCIL FOR DISCUSSION AT ITS MEETING ON 20TH NOVEMBER, 1974 AND FOR LATER TRANSMISSION TO MINISTERS IN ACCORDANCE WITH PARAGRAPH 8 OF THE COMMUNIQUE OF 19TH JUNE, 1974.

(SIGNED) JOESPH M.A.H. LUNS

DEVELOPMENTS IN THE MEDITERRANEAN JUNE-NOVEMBER 1974

1. AT THEIR LAST MEETING IN OTTAWA ON 18TH AND 19TH JUNE, 1974, MINISTERS NOTED THE REPORT ON THE SITUATION IN THE MEDITERRANEAN (C-M(74)18(FINAL)) WHICH HAD BEEN PREPARED ON THEIR INSTRUCTIONS BY THE CONCIL IN PERMANENT SESSION. IN PARAGRAPH 8 OF THE MINISTERIAL COMMUNIQUE, MINISTERS INVITED THE COUNCIL IN PERMANENT SESSION TO CONTINUE TO KEEP THE SITUATION UNDER REVIEW AND TO REPORT TO THEM AGAIN AT THEIR NEXT MEETING.

2. IN ACCORDANCE WITH THESE INSTRUCTIONS, THE COUNCIL IN PERMANENT SESSION ARRANGED FOR THE FOLLOWING REPORT TO BE PREPARED ON THE SITUATION IN THE MEDITERRANEAN. THIS REPORT SHOULD BE REGARDED AS PART OF THE CONTINUING REVIEW OF, AND CONSULTATION ON, THE SITUATION IN THE MEDITERRANEAN. IN VIEW OF THE FLUIDITY OF THE SITUATION, HOWEVER, THE SURVEY HAS FOCUSED ON THE OUTSTANDING EVENTS AND ON THE GENERAL TREND OF

DEVELOPMENTS, AS IT AFFECTS THE ALLIANCE.

I. SIGNIFICANT EVENTS IN THE POLITICAL, MILITARY AND ECONOMIC SPHERES

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A. POLITICAL

EGYPT

3. IN SPITE OF SOVIET DISPLEASURE AT THE RAPPROCHEMENT BETWEEN EGYPT AND THE UNITED STATES, THERE HAS BEEN AN IMPROVEMENT IN RELATIONS BETWEEN CAIRO AND MOSCOW. THE FOREIGN MINISTER, MR. FAHMI, WAS DUE TO VISIT MOSCOW IN JULY, HIS SECOND VISIT TO THE SOVIET UNION THIS YEAR, BUT THE VISIT WAS CANCELLED BY MOSCOW WITHOUT WARNING AND TO THE ASTONISHMENT OF THE EGYPTIANS. NOT UNTIL EARLY SEPTEMBER DID ONE LEARN THAT IT HAD BEEN POSTPONED UNTIL MID-OCTOBER. FOLLOWING MR. FAHMI'S OCTOBER VISIT, UNUSUALLY, ONLY A BRIEF STATEMENT WAS ISSUED AND

NO NEW ECONOMIC AGREEMENTS WERE ANNOUNCED. THERE IS NO EVIDENCE TO SUGGEST THAT THE SOVIET UNION HAS YET AGREED TO EGYPTIAN REQUESTS FOR THE DELIVERY OF SIGNIFICANT QUANTITIES OF SOPHISTICATED MILITARY EQUIPMENT. CLEARLY, A PRIMARY PURPOSE OF MR. FAHMI'S TRIP WAS TO PREPARE A VISIT, LONG-SOUGHT BY THE EGYPTIANS, OF MR. BREZHNEV TO CAIRO. IT HAS NOW BEEN ANNOUNCED THAT THE VISIT WILL TAKE PLACE IN JANUARY. FOR THEIR PART, THE EGYPTIANS HAVE INDICATED IN AL AHRAH THAT DURING HIS VISIT MR. BREZHNEV WILL SIGN ECONOMIC AGREEMENTS COVERING GRAIN IMPORTS, THE CONSTRUCTION OF A NEW IRON AND STEEL COMPLEX, PHOSPHATES EXPLOITATION AND NUCLEAR CO-OPERATION. THEY WILL ALSO EXPECT MR. BREZHNEV TO ANNOUNCE AGREEMENT TO NEW ARMS CONTRACTS.

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SYRIA

4. THE SOVIET UNION HAS CONTINUED TO CONSOLIDATE ITS POSITION IN SYRIA. THERE HAVE BEEN FURTHER IMPORTANT DELIVERIES OF PARTICULARLY ADVANCED MILITARY EQUIPMENT AND A LARGE NUMBER OF SOVIET TECHNICIANS ARE WORKING ON DEVELOPMENT PROGRAMMES. DURING A BRIEF STOP-OVER IN MOSCOW BY PRESIDENT ASSAD IN SEPTEMBER, THE SOVIET UNION REAFFIRMED ITS SUPPORT FOR SYRIA.

LIBYA

5. THE RAPPROCHEMENT BETWEEN LIBYA AND THE SOVIET UNION,
WHICH STARTED AT THE BEGINNING OF THE YEAR, HAS CONTINUED IN
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SPITE OF COL. GADAFY'S CONTINUED HOSTILITY TO COMMUNIST
IDEOLOGY. PRIME MINISTER JALLOUD'S VISIT TO MOSCOW IN MAY
APPEARS TO HAVE RESULTED IN AN ARMS DEAL UNDER WHICH THE SOVIET
BLOC IS SUPPLYING LIBYA WITH ARMS, INCLUDING TANKS AND MISSILES.
THIS DEVELOPMENT CONFIRMS A LIBYAN TENDENCY TO DIVERSIFY THEIR
SOURCES OF ARMS SUPPLIES. DURING THE VISIT, AGREEMENTS
COVERING INDUSTRIAL AND TRADE CO-OPERATION WERE ALSO SIGNED
BUT IT SEEMS UNLIKELY THAT ANYTHING SPECIFIC WAS ACHIEVED. THE
SCOPE OF THE CHANGES IN POWER-SHARING BETWEEN COL. GADAFY AND
MR. JALLOUD HAVE BEEN LESS THAN SOME REPORTS WOULD INDICATE;
GADAFY STILL HAS THE UPPER HAND WHEN IT COMES TO FRAMING
NATIONAL POLICY. LASTLY, THERE HAS BEEN NO IMPROVEMENT IN
RELATIONS BETWEEN EGYPT AND LIBYA.

PALESTINIANS.

6. THE PALESTINIAN ORGANIZATIONS HAVE INCREASED THEIR
IMPORTANCE ON THE DIPLOMATIC CHESSBOARD OF THE MIDDLE EAST.
THERE HAVE BEEN NEW DEVELOPMENTS ON SEVERAL POINTS. THE ARAB
SUMMIT MEETING IN RABAT STRESSED THE INALIENABLE RIGHT OF THE
PALESTINIAN PEOPLE TO SET UP A NATIONAL AUTHORITY UNDER THE
LEADERSHIP OF THEIR SOLE REPRESENTATIVE, THE PLO, OVER ALL
PALESTINIAN TERRITORY WHICH IS LIBERATED. KING HUSSEIN WHO
HAD CONSISTENTLY OPPOSED SUCH A DECISION EVENTUALLY CONCURRED.
THE UNITED NATIONS GENERAL ASSEMBLY HAS AGREED TO INCLUDE THE
"QUESTION OF PALESTINE" AS SUCH ON ITS AGENDA, AND, IN AN
UNPRECEDENTED DECISION, TO HEAR THE PLO REPRESENTATIVE IN
PLENARY SESSION. LASTLY, THE SOVIET UNION HAS LESSENED ITS
RESERVE TOWARDS THE PLO. DURING HIS VISIT TO MOSCOW IN AUGUST,
YASSER ARAFAT(AFTER FIVE VISITS TO THE SOVIET CAPITAL) WAS
RECEIVED FOR THE FIRST TIME BY A SOVIET GOVERNMENT REPRESENTATIVE.
ON THAT OCCASION, THE RUSSIANS AGREED TO THE OPENING OF AN OFFICIAL
PLO OFFICE IN MOSCOW. IN A SPEECH MADE IN BULGARIA EARLY IN
SEPTEMBER, PRESIDENT PODGORNYY COINED A NEW PHRASE WHEN HE SAID
THAT THE PALESTINIANS HAD "A SOVEREIGN RIGHT TO ESTABLISH THEIR
OWN STATEHOOD IN ONE FORM OR ANOTHER". TO MARK HIS DISAPPROVAL
OF YASSER ARAFAT'S POLICY, HABASH, THE LEADER OF THE EXTREMIST
PFLP FACTION. HAS RESIGNED FROM THE PLO EXECUTIVE COMMITTEE.
ALTHOUGH THIS SPLIT MAY WEAKEN THE ORGANIZATION, IT NONETHELESS
ENHANCES THE STATURE OF YASSER ARAFAT AS THE VOICE OF MODERATION.

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B. MILITARY

SOVIET MILITARY PRESENCE IN THE AREA

7. THE SOVIET-MEDITERRANEAN SQUADRON (SOVMEDRON) CONTINUES TO BE THE MAIN SOVIET PRESENCE IN THE AREA. WHILE REMAINING AT FAIRLY CONSTANT NUMERICAL STRENGTH THROUGHOUT THE PERIOD IT CONTINUES TO MODERNIZE AND IMPROVE COMBAT EFFECTIVENESS, PARTICULARLY OF THE SUBMARINE COMPONENT.

8. IT SEEMS THAT THE ROUTINE FOR RELIEVING THE SUBMARINES OF THE SOVMEDRON AT REGULAR INTERVALS OF 5-6 MONTHS, WAS INTERRUPTED BY THE LONGER DEPLOYMENT NECESSITATED BY THE OCTOBER 1973 WAR. THE MASS RELIEF EXPECTED IN THE SPRING OF 1974 DID NOT OCCUR BUT SUBMARINES WERE APPARENTLY RELIEVED IN "PENNY PACKETS" BY COVERT TRANSITS FROM/TO THE NORTHERN FLEET. SUCH A CHANGE IN ROUTINE DEMONSTRATES A GROWING CONFIDENCE IN THE ABILITY OF INDIVIDUAL SUBMARINES TO MAKE THE LONG VOYAGE ALONE. THIS COMPLICATES THE TASK OF SURVEILLANCE. THE FIRST LARGE RELIEF OF THE SUBMARINE FORCE SINCE OCTOBER 1973 OCCURRED IN SEPTEMBER 1974. THIS OPERATION WAS ALSO PARTLY COVERT.

9. SOME SUPPORT UNITS AND AUXILIARIES OF THE SOVMEDRON ARE USUALLY PRESENT IN THE PORT OF ALEXANDRIA WHERE THE SOVIETS HAVE ACCESS TO FACILITIES FOR SOME MAINTENANCE AND REPAIR OF THEIR SHIPS. PERSONNEL AND SPECIAL EQUIPMENT ARE PROBABLY PROVIDED BY THE SOVMEDRON ITSELF.

CLEARANCE OF THE SUEZ CANAL

10. WORK ON THE CLEARANCE OF THE SUEZ CANAL CONTINUES APACE; THE MOST RECENT ESTIMATES INDICATE THAT, POLITICAL CONSIDERATIONS PERMITTING, AND ASSUMING THAT THE EGYPTIAN TIME-TABLE, WHICH IS NOT EASY TO MEET, CAN BE ADHERED TO, THE WATERWAY COULD BE OPEN TO SHIPS OF 30 FT (9.3M) DRAUGHT BY MARCH 1975 AND THAT IT WILL BE RESTORED TO ITS PRE-1967 CONDITION (I.E. CAPABLE OF TAKING SHIPS OF 38 FT (11.8M DRAUGHT) BY THE END OF 1975. HOWEVER, IT SEEMS UNLIKELY THAT IT WILL BE ABLE TO CARRY THE SAME AMOUNT OF TRAFFIC BY THAT DATE AS IN 1967. ALL CURRENTLY OPERATIONAL SOVIET WARSHIPS WOULD BE ABLE TO PASS THROUGH THE CANAL FROM MARCH 1975. THE DRAUGHT OF THE
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NEW SOVIET AIRCRAFT CARRIER KIEV WHICH IS EXPECTED TO BECOME OPERATIONAL IN 1975-76 IS NOT KNOWN. IT SHOULD BE NOTED THAT NOT ALL NATO WARSHIPS WILL BE ABLE TO USE THE CANAL BEFORE IT IS FULLY RESTORED TO ITS PRE-1967 CONDITION AND EVEN THEN SOME MAY HAVE TOO GREAT A DRAUGHT TO MAKE THE PASSAGE.

11. A SOVIET TASK FORCE, CONSISTING OF THE LENINGRAD HELICOPTER CARRIER AND A NUMBER OF MINESWEEPERS HAS BEEN ENGAGED IN MINE-CLEARANCE IN THE GULF OF HURGHADA AT THE SOUTHERN END

OF THE CANAL WHILST THE US/UK FORCE HAS BEEN OPERATING IN THE
CANAL ITSELF. THE SOVIET HELICOPTER CARRIER HAS DEPARTED BUT THE
MINESWEEPERS REMAIN.

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ARMS SUPPLIES TO ARAB COUNTRIES

12. SOVIET SUPPLY OF ARMS TO SYRIA, INCLUDING THE MOST
MODERN TYPES OF AIRCRAFT (MIG 23 FLOGGER AND SU 7 FITTER) HAS BEEN
CONFIRMED OVER THE LAST SIX MONTHS. DELIVERIES OF SCUD SURFACE-
TO-SURFACE MISSILES HAVE BEEN REPORTED BUT NOT CONFIRMED. THE
SYRIAN ARMED FORCES (EXCEPT THE NAVY) ARE NOW BETTER EQUIPPED
THAN THEY WERE AT THE OUTBREAK OF THE OCTOBER 1973 WAR.

13. AS THE PREVIOUS REPORT NOTED, AFTER THE MILITARY
EQUIPMENT (EXCEPT PERHAPS AIRCRAFT) LOST BY EGYPT DURING THE
OCTOBER 1973 WAR WAS REPLACED BY THE SOVIET UNION, ARRANGEMENTS
FOR CONTINUING ARMS SHIPMENTS CAME UNDER CONSIDERABLE STRESS,
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AND INDEED EGYPT RECEIVED NOTHING AT ALL FROM THE SOVIET UNION

FROM APRIL TO AUGUST. THE DELIVERY OF ARMS TO EGYPT HAS NOW APPARENTLY BEEN RENEWED BUT INDICATIONS ARE THAT THE SOVIETS ARE HESITANT ABOUT PROVIDING A FULL-SCALE SUPPLY. SINCE AUGUST 1974 THE SUPPLY OF ARMS TO EGYPT HAS BEEN LIMITED TO PREVIOUSLY CONTRACTED SMALL SHIPMENTS OF SPARE PARTS AND AMMUNITION, WITH THE APPARENT INTENTION OF UNDERLINING EGYPTIAN DEPENDENCE ON SOVIET GOODWILL IN ORDER TO EXTRACT POLITICAL ADVANTAGES.

14. THE SOVIET SUPPLY OF ARMS TO LIBYA FORECAST IN THE PREVIOUS REPORT HAS APPARENTLY STARTED. THERE ARE REPORTS OF DELIVERIES OF SA-3 AND SA-6 MISSILE SYSTEMS, OF ARMoured PERSONNEL CARRIERS AND OF TANKS INCLUDING T-62S. OTHER UNCONFIRMED REPORTS HAVE IT THAT THE SOVIET-LIBYAN ARMS AGREEMENT INCLUDES MIG 23 FLOGGER AIRCRAFT. THE POSSESSION BY THE LIBYANS OF MIG 23S WOULD GIVE THEM AN ENHANCED CAPABILITY TO CONTROL AIRSPACE OVER THE GULF OF SIRTE.

15. IRAQ IS STILL ONE OF THE MAIN RECIPIENTS OF SOVIET ARMS OF THE MOST SOPHISTICATED DESIGN SUCH AS THE T-62 TANKS. IRAQ HAS RECEIVED MIG 23 FLOGGERS, THE SECOND SUCH DELIVERY AFTER SYRIA TO A NON-COMMUNIST COUNTRY IN THE AREA. WHILE IT APPEARS LIKELY THAT SOVIET TRAINING ACTIVITY IS BEING CONDUCTED IN SYRIA, SUCH ACTIVITY BY SOVIETS IN IRAQ CANNOT BE CONFIRMED BY AVAILABLE EVIDENCE.

SOVIET ACCESS TO THE MEDITERRANEAN BASIN

16. A NEW YUGOSLAV LAW ALLOWS, WITH CERTAIN LIMITATIONS, FOR THE REPAIR OF NAVAL VESSELS OF OTHER NATIONS IN YUGOSLAV DOCKYARDS. SINCE PASSAGE OF THE LAW SOVIET NAVAL AUXILIARIES HAVE USED FACILITIES IN THE GULF OF KOTOR, BUT HEAVILY ARMED VESSELS HAVE APPARENTLY NOT BEEN REPAIRED. THIS SUGGESTS THAT POLITICAL CONSIDERATIONS ARE AS IMPORTANT TO THE SOVIETS AS LOGISTICAL ONES. THE SOVIET UNION HAS APPARENTLY NOT ABANDONED THE POLICY OF OBTAINING PORT FACILITIES ON THE DALMATIAN COAST. SOVIET SHIPS CONTINUE TO VISIT YUGOSLAV PORTS, THESE VISITS WILL BEING LIMITED TO THREE DAYS. THE TREND TOWARD IMPROVEMENT SOVIET-YUGOSLAV RELATIONS APPEARS TO HAVE BEEN SHAKEN BY THE RECENT TRIAL OF A "COMINFORMIST" GROUP.

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17. AS FOR THE WIDER ASPECT OF THE SOVIET ATTITUDES IN THE BALKANS, THERE IS EVIDENCE OF EVEN CLOSER COLLABORATION BETWEEN THE SOVIET ARMY AND AIR FORCES AND THOSE OF BULGARIA, PROBABLY THE MOST RELIABLE AND PRO-SOVIET MEMBER OF THE WARSAW PACT. FURTHERMORE, WHILE THERE HAS BEEN NO NOTICEABLE IMPROVEMENT IN SOVIET-ROMANIAN RELATIONS, THERE HAVE BEEN A NUMBER OF ROMANIAN INITIATED REPORTS OF SOVIET PRESSURE FOR THE ROMANIANS TO PROVIDE TRANSIT RIGHTS FOR SOVIET TROOPS TO AND FROM BULGARIA. A REINFORCEMENT OF SOVIET FORCES IN HUNGARY HAS BEEN OBSERVED, THE REASONS FOR WHICH CANNOT BE EXPLAINED

AT PRESENT.

C. ECONOMIC

18. OVER THE PAST TWELVE MONTHS CONTROL OVER OIL PRICES AND SUPPLY HAS PASSED FROM THE CONSUMING NATIONS AND THEIR OIL COMPANIES TO THE OPEC PRODUCERS. HIGH PRICES HAVE REDUCED GROWTH IN CONSUMPTION AND DEMAND FOR IMPORTED OIL. AT THE SAME TIME, MASSIVE OIL REVENUES, CONSERVATION CONSIDERATIONS AND OTHER FACTORS HAVE MADE MANY (BUT NOT ALL) PRODUCERS LESS INFLUENCED BY THE USUAL FINANCIAL INCENTIVES AND LESS RESPONSIVE TO MARKET FORCES.

19. OPEC PRODUCTION HAS NOT YET RETURNED TO THE 33 MILLION BARRELS PER DAY (4.7 MILLION TONS) LEVEL ACHIEVED JUST PRIOR TO THE OCTOBER 1973 EMBARGO/CUTBACK BY THE OPEC PRODUCERS. FURTHERMORE TOTAL OPEC PRODUCTION DROPPED BY OVER 2 MILLION BARRELS PER DAY (286,000 TONS) FROM 31,650 MILLION (4.5 MILLION TONS) IN APRIL 1974 TO 29,350 MILLION (4.2 MILLION TONS) IN AUGUST OF THIS YEAR. ALTHOUGH OPEC AND SOME OUTSIDE OBSERVERS HAVE SPOKEN OF A CONCERTED PROGRAMME OF PRODUCTION CUTBACKS TO SUSTAIN HIGH PRICES, THE REDUCTIONS UNDERTAKEN THUS FAR HAVE NOT BEEN CO-ORDINATED BUT ARE INSTEAD THE RESULT OF INDIVIDUAL DECISIONS AND CIRCUMSTANCES.

20. THE IMPACT OF WORLD INFLATION OF THE ECONOMY OF ISRAEL, AS OF MANY OTHER COUNTRIES IN THE NON-COMMUNIST WORLD, IS AGGRAVATED BY THE FACT THAT ISRAELI PRICES HAD ALREADY BEEN RISING SHARPLY FOR SOME YEARS. THE LABOUR FORCE IN THE INDUSTRIAL SECTOR HAS FALLEN BY SOME 7 PERCENT DESPITE AN INCREASE
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IN THE ACTIVITIES OF FIRMS WORKING FOR DEFENCE, DUE TO THE CONTINUED MOBILIZATION OF RESERVES IN A LARGER STANDING ARMY. ISRAEL WILL REMAIN DEPENDENT ON FOREIGN AID AND CREDITS.

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21. IN EGYPT, THE SITUATION IS STILL MORE DIFFICULT. THE STEEP RISE IN THE PRICE OF FOODSTUFFS HAS LED TO PROTEST AND GENERATED UNREST AMONG THE WORKERS IN THE MAJOR INDUSTRIAL CENTRES WHERE SEVERAL FIRMS ARE IN TROUBLE AS A RESULT OF RAW MATERIAL AND EQUIPMENT SHORTAGES. MOVES TOWARDS SOME MEASURE OF ECONOMIC LIBERALISM HAVE BEEN CHALLENGED IN VARIOUS QUARTERS. THE EGYPTIAN LEADERSHIP IS NONETHELESS GOING AHEAD WITH ITS MORE OUTWARD LOOKING POLICY WHICH RESTS, ECONOMICALLY SPEAKING, ON ATTRACTING MAJOR ARAB FINANCIAL SUPPORT AND WESTERN INVESTMENT, TECHNOLOGY AND KNOW-HOW. EGYPT SEEMS TO BE WORKING TOWARDS A RAPPROCHEMENT WITH THE COUNTRIES OF THE EAST, INCLUDING THE SOVIET UNION, WHOSE ECONOMIC ASSISTANCE IS REQUIRED FOR A NUMBER OF PROJECTS IN THE PROCESS OF COMPLETION OR EXPANSION.

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22. SYRIA, WHILE INCREASING THE NUMBER OF ITS ECONOMIC AGREEMENTS WITH THE COMMUNIST COUNTRIES, IS SIMULTANEOUSLY BUILDING UP CONTACTS WITH THE ARAB COUNTRIES AND THE WEST, PARTICULARLY THE EUROPEAN COMMUNITY COUNTRIES. ECONOMIC MANAGEMENT, PARTICULARLY IN THE PUBLIC SECTOR, HAS RECENTLY COME IN FOR SHARP CRITICISM WITHIN THE COUNTRY. EMIGRATION OF PROFESSIONALS AND SKILLED WORKERS HAS REACHED SERIOUS PROPORTIONS AND ATTEMPTS ARE AT PRESENT BEING MADE TO HOLD DOWN AND EVEN TO PUT A STOP TO THIS MOVEMENT.

23. IN IRAQ, THE ECONOMIC DEVELOPMENT PLAN FOR THE FISCAL YEAR 1974-1975 INVOLVES AN ALMOST FOUR-FOLD-INCREASE IN EXPENDITURE AS COMPARED WITH THE PREVIOUS YEAR AS A CONSEQUENCE OF THE RISE IN IRAQI REVENUE RESULTING FROM HIGHER OIL PRICES. IN THE LONGER TERM, IRAQ HAS AN AMBITIOUS TEN-YEAR DEVELOPMENT PLAN WHICH INCLUDES RAISING OIL PRODUCTION BY 1980 TO SIX MILLION BARRELS PER DAY (857,000 TONS), OR MORE THAN THREE TIMES THE CURRENT PRODUCTION LEVELS. A SIGNIFICANT AMOUNT OF IRAQI OIL IS EXPORTED TO THE USSR AND OTHER CEMA MEMBERS USING PIPELINES TO MEDITERRANEAN TERMINALS.

24. IN LIBYA, OIL PRODUCTION HAS BEEN FALLING STEADILY SINCE JANUARY PARTLY DUE TO A COMBINATION OF UNREALISTICALLY HIGH PRICES, TECHNICAL DIFFICULTIES AND A DISAGREEMENT WITH A MAJOR PRODUCTION COMPANY. LIBYA'S PRODUCTION OF 1.7 MILLION BARRELS PER DAY (243,000 TONS) IN JANUARY DECLINED TO ABOUT 1 MILLION (143,000 TONS) IN SEPTEMBER. FALLING PRODUCTION HAS NOT BEEN COMPENSATED FOR BY A RISE IN LIBYA'S PER BARREL RECEIPTS THROUGHOUT THE YEAR. HOWEVER, THE FALL IN OIL PRODUCTION SINCE LAST JANUARY, IF NOT ENTIRELY PLANNED BY THE GOVERNMENT, IS NOT SUCH THAT IT WOULD ENDANGER THE CONOMY OF THE COUNTRY WHICH HAS LARGE FINANCIAL RESOURCES AND FOREIGN EXCHANGE RESERVES. LIBYA HAS SIGNED AGREEMENTS FOR ECONCOMIC, TECHNICAL, COMMERCIAL AND SCIENTIFIC CO-OPERATION WITH CZECHOSLOVAKIA, POLAND, ROMANIA, HUNGARY, AND THE SOVIET UNION, BUT LITTLE IS KNOWN OF THEIR CONTENTS. LIBYA'S CHIEF TRADING PARTNER IS STILL ITALY FOLLOWED, SOME WAY BEHIND BY THE FEDERAL REPUBLIC OF GERMANY, THE UNITED KINGDOM, FRANCE AND JAPAN. THESE COUNTRIES, AND A NUMBER OF OTHERS, ARE CONTRIBUTING, THROUGH THEIR EXPORTS, TO LIBYA'S UNPRECEDENTED ECONOMIC ACTIVITY.

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II. PRESENT TRENDS

A. POLITICAL

25. THE ANNOUNCEMENT THAT MR. BREZHNEV WILL AT LAST VISIT CAIRO IN JANUARY MARKS A SIGNIFICANT CHANGE IN SOVIET TACTICS-ONE WHICH MAY OPEN A NEW PHASE IN THE RELATIONS BETWEEN THE TWO COUNTRIES. MOSCOW WISHES TO AVOID ANY FURTHER DETERIORATION IN ITS RELATIONS WITH EGYPT, WHICH REMAIN THE FOCAL POINT OF ITS PENETRATION OF THE MEDITERRANEAN. THIS REVISED MOSCOW APPROACH WELL SUITS PRESIDENT SADAT'S POLICY OF SEEKING TO BENEFIT FROM SOVIET POLITICAL SUPPORT IN THE SEARCH FOR A SOLUTION TO THE MIDDLE EAST PROBLEM. SADAT HAS REITERATED THAT HIS AIM IS NOT TO BREAK WITH THE SOVIET UNION BUT TO PUT RELATIONS ON A MORE NORMAL FOOTING AND TO MAINTAIN MORE BALANCE IN HIS RELATIONSHIP WITH THE TWO SUPER POWERS. HOWEVER, THE SNUB ADMINISTERED TO MR. FAHMI LAST JULY WAS NO DOUBT INTENDED TO REMIND THE EGYPTIANS THAT THEY REMAIN DEPENDENT ON SOVIET GOODWILL. CAIRO'S DEPENDENCE ON SOVIET MILITARY EQUIPMENT, PARTICULARLY IN TERMS OF RESUPPLY, CERTAINLY LIMITS THE EGYPTIANS' FREEDOM OF MANOEUVRE. BE THIS AS IT MAY, THERE IS NO DOUBT THAT THE SOVIET-EGYPTIAN RELATIONSHIP HAS LOST ITS PRIVILEGED CHARACTER AND THIS HAS ENCOURAGED MOSCOW TO DEEPEN ITS RELATIONSHIP WITH OTHER ARAB COUNTRIES.

26. THE SOVIET UNION HAS CONTINUED TO USE THE SUPPLY OF ARMS AS A CHOICE METHOD OF PROMOTING ITS INTERESTS IN THE AREA, AS CAN BE SEEN FROM THE SIZE AND QUALITY OF THE DELIVERIES TO SYRIA. THE SCALE OF SOVIET SUPPLIES TO SYRIA AND LIBYA AND THEIR WITHHOLDING OF SIMILAR SUPPLIES TO EGYPT HAS INCREASED EGYPTIAN SUSPICIONS ABOUT SOVIET POLICY TOWARDS THEM

27. IN THE CONTEXT OF THIS SAME POLICY OF REINSURANCE, IN PURSUANCE OF WHICH IT IS SEEKING NEW FOOTHOLDS IN THE MIDDLE EAST, THE USSR HAS DECIDED TO ATTACH GREATER IMPORTANCE TO THE PALESTINIAN FACTOR. THE KREMLIN HAS NOT, HOWEVER, ABANDONED THE CAUTIOUS STANCE IT HAS CONSISTENTLY TAKEN VIS-A-VIS THE PALESTINIANS. IN THE OFFICIAL COMMUNIQUE ON ARAFAT'S VISIT TO MOSCOW, THE SOVIET AUTHORITIES MERELY NOTE WITH SATISFACTION THE IMPORTANCE OF THE DECISIONS TAKEN AT THE ARAB SUMMITS IN
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ALGIERS AND LAHORE, WHEREBY THE PLO WAS RECOGNIZED AS THE SOLE LEGITIMATE REPRESENTATIVE OF THE ARAB PEOPLE OF PALESTINE, I.E. WITHOUT ASSOCIATING THEMSELVES WITH THESE DECISIONS. FINALLY, ALTHOUGH IN THE SAME COMMUNIQUE MOSCOW ACKNOWLEDGES THAT THE PALESTINIANS MAY LEGITIMATELY STRIVE FOR THE ATTAINMENT OF THEIR NATIONAL RIGHTS, IT TAKES CARE TO ADD THAT THIS MUST BE DONE IN COMPLIANCE WITH THE CHARTER AND DECISIONS OF THE UNITED NATIONS.

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28. THE USSR HAS SHOWN SOME CONCERN OVER THE INHERENT CONFLICT BETWEEN ITS ARAB POLICY AND THE APPLICABILITY OF THE POLICY OF DETENTE TO THE MEDITERRANEAN AREA. IN A SPEECH ON JULY 21ST, MR. BREZHNEV PROPOSED THAT US/SOVIET EFFORTS TO LIMIT STRATEGIC OFFENSIVE WEAPONS INCLUDE AN AGREEMENT TO WITHDRAW US AND SOVIET NUCLEAR EQUIPPED NAVAL UNITS FROM THE MEDITERRANEAN. WHILE THE NUCLEAR FREE ZONE CONCEPT APPEARED DESIGNED PRIMARILY FOR PROPAGANDA PURPOSES, ITS TIMING AT THE HEIGHT OF THE CYPRUS CRISIS ALSO SEEMED TO REFLECT MOSCOW'S INTEREST IN AVOIDING A NEW CONFRONTATION. THE SOVIET OFFER WAS REPEATED BY PRESIDENT PODGORNYY ON 8TH SEPTEMBER.

29. EGYPT AND ISRAEL ARE SCRUPULOUSLY IMPLEMENTING THE
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DISENGAGEMENT AGREEMENT ALONG THE FRONT BETWEEN THE TWO COUNTRIES. SYRIA AND ISRAEL ARE ALSO OBSERVING THE DISENGAGEMENT AGREEMENT ALONG THEIR MUTUAL FRONT, WITH THE EXCEPTION OF OCCASIONAL DISCREPANCIES. ISRAEL, EGYPT AND SYRIA HAVE THE CAPABILITY OF RESUMING HOSTILITIES WITH LITTLE OR NO WARNING. UNLESS THERE IS EARLY PROGRESS IN NEGOTIATIONS TOWARDS A JUST AND LASTING PEACE, THE RISK OF ANOTHER ROUND OF FIGHTING WILL INCREASE. THE NEW STATUS OF THE PLO WILL HAVE A BEARING ON NEGOTIATIONS. THE SOVIET UNION APPEARS INCREASINGLY DISSATISFIED AT BEING RELEGATED TO A SECONDARY POSITION IN THE NEGOTIATING PROCESS AND IS SEEKING WAYS TO PLAY A MORE ACTIVE ROLE.

B. MILITARY

30. THE CONTINUED PRESENCE OF THE SOV MEDRON AT A CONSTANT STRENGTH OF SOME 55 SHIPS FORMING A MIXED FORCE CONFIRMS THE IMPRESSION IN THE PREVIOUS REPORT THAT THE USSR THINKS SUCH A FORCE MEETS ITS PEACETIME REQUIREMENTS. IN RECENT MONTHS, THE INCREASE IN SOUTHBOUND DECLARATIONS UNDER THE MONTREUX CONVENTION, ALTHOUGH NOT HONOURED, INDICATES QUITE CLEARLY THEIR INTENTION TO REINFORCE THE SQUADRON AT SHORT NOTICE WHENEVER THEY DEEM IT TO BE IN THEIR INTEREST TO DO SO, AND THIS MUST BE EXPECTED IN ANY CRISIS SITUATION IN THE AREA.

31. THE SOVIET UNION HAS AN OBVIOUS INTEREST IN THE RE-OPENING OF THE SUEZ CANAL IN TERMS OF AUGMENTING ITS FLEXIBILITY IN NAVAL DEPLOYMENTS. FOR EXAMPLE, THE CANAL WOULD GIVE THE SOVIETS, FOR THE FIRST TIME SINCE 1967, THE CAPABILITY FOR SIGNIFICANTLY AND RAPIDLY REINFORCING THEIR NAVAL STRENGTH IN THE INDIAN OCEAN FROM THEIR MEDITERRANEAN AND BLACK SEA NAVAL FORCE, AND VICE-VERSA. IN VIEW OF THE DANGER POSED BY THE CLOSURE OF THE CANAL IN A CRISIS, THE SOVIET UNION WILL NO DOUBT WISH TO AVOID THE DEPLOYMENT OF ITS UNITS BECOMING EXCLUSIVELY DEPENDENT ON THIS WATERWAY.

C. ECONOMIC

32. THE OIL CRISIS AND THE ACCRUING REVENUES HAVE STRENGTHENED THE FINANCIAL AND ECONOMIC POSITION OF THE OIL PRODUCING COUNTRIES IN THE MIDDLE EAST. IT IS LIKELY THAT A PROPORTION OF INCREASED OIL REVENUES WILL BE USED FOR THE SECRET

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BENEFIT OF NON-OIL PRODUCING ARAB COUNTRIES. THOSE ARAB COUNTRIES WITH HIGHER ABSORPTION CAPACITIES WILL BE ABLE TO EXPAND AND DIVERSIFY THEIR ECONOMIES NOTABLY THROUGH THE ACQUISITION OF ADVANCED TECHNOLOGY, MACHINERY AND EQUIPMENT. THEY WILL ALSO BE ABLE TO INCREASE SIGNIFICANTLY THEIR PURCHASES OF MILITARY EQUIPMENT.

33. THE SHARP INCREASE IN OIL PRICES, TOGETHER WITH THE RISE IN PRICES OF MOST RAW MATERIALS, HAS FAVOURED THE SOVIET UNION WHICH IS A MAJOR PRODUCER AND EXPORTER. EASTERN EUROPEAN COUNTRIES, HOWEVER, WHOSE OIL IMPORTS FROM THE MIDDLE EAST HAVE SO FAR BEEN MARGINAL MAY BECOME INCREASINGLY DEPENDENT ON MIDDLE EAST OIL AS A RESULT OF GROWING SOVIET INTERNAL CONSUMPTION. THE SOVIET UNION THUS BENEFITS FROM IMPROVED TERMS OF TRADE IN ITS COMMERCIAL RELATIONS THEREBY INCREASING ITS ABILITY TO ALLOCATE RESOURCES TO DEFENCE.

34. BY CONTRAST, THE CONSTANT INCREASES IN OIL PRICES WHICH MAY WELL CONTINUE IN 1975 HAVE PLACED A HEAVY BURDEN ON MOST OF THE ALLIED COUNTRIES AND HAVE INDIRECTLY PUT ADDITIONAL PRESSURE ON THEIR DEFENCE BUDGETS. WESTERN ECONOMIES HAVE PROVED TO BE MORE HIGHLY VULNERABLE TO THE OIL CRISIS THAN THAT OF THE SOVIET UNION.

III. CONCLUSIONS

35. THE SOVIET ATTITUDE TOWARDS EGYPT EXEMPLIFIES HOW FLEXIBLE THE USSR CAN BE IN ITS TACTICS WHEN IT ENCOUNTERS DIFFICULTIES IN ITS RELATIONS WITH THE ARAB COUNTRIES. THIS IS FURTHER EVIDENCE OF MOSCOW'S RESOLVE TO PRESERVE AND EXTEND ITS POLITICAL, MILITARY AND ECONOMIC INFLUENCE IN THE MEDITERRANEAN AREA. AT THE POLITICAL LEVEL, EFFORTS SHOULD BE MADE TO ENCOURAGE THE TREND WHICH IS PROMPTING VARIOUS ARAB COUNTRIES TO ESTABLISH CLOSER RELATIONS WITH THE WESTERN WORLD. AT THE MILITARY LEVEL, THE CONTINUING SOVIET PRESENCE AND THEIR EFFORTS TO MODERNIZE THEIR FORCES MAKE IT IMPERATIVE FOR THE ALLIED COUNTRIES TO TAKE APPROPRIATE MEASURES TO PRESERVE THE BALANCE OF FORCES. AT THE ECONOMIC LEVEL, THE ALLIED COUNTRIES SHOULD SEEK TO EXPAND COMMERCIAL AND INDUSTRIAL CO-OPERATION AND TO ENCOURAGE GREATER INTERDEPENDENCE BETWEEN THE MEDITERRANEAN ARAB STATES AND THEMSELVES PARTICULARLY WITH A VIEW TO LESSENING SECRET

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